Coachman
INSURANCE COMPANY

2015 Coachman Insurance Company annual report

Responsibility for Financial Statements

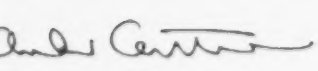
The financial statements are the responsibility of Management and have been prepared in conformity with International Financial Reporting Standards. In the opinion of Management, the financial statements fairly reflect the financial position, results of operations and cash flows of Coachman Insurance Company (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of Management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

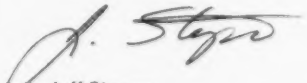
An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities and to issue a report thereon to the shareholder and regulatory authorities. The valuation is carried out in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of Management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The financial statements have been examined and approved by the Board of Directors. An Audit, Finance and Conduct Review Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without Management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

PricewaterhouseCoopers have been appointed external auditors. Their responsibility is to report to the shareholder and regulatory authorities regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and her report on the policy liabilities. The Auditor's Report outlines the scope of their examination and their opinion.



Andrew R. Cartmell
President and Chief Executive Officer



Jeff Stepan
Chief Financial Officer

February 25, 2016

Actuary's Report

To the Shareholder of Coachman Insurance Company

I have valued the policy liabilities and reinsurance recoverables of Coachman Insurance Company for its statement of financial position at December 31, 2015, and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities, net of reinsurance recoverables, makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.

Barb Addie
Baron Insurance Services Inc.
Fellow, Canadian Institute of Actuaries
Fellow, Casualty Actuarial Society

February 25, 2016

Independent Auditor's Report

February 25, 2016

To the Shareholder of Coachman Insurance Company

We have audited the accompanying financial statements of Coachman Insurance Company (the Corporation), which comprise the statement of financial position as at December 31, 2015 and the statements of operations, changes in shareholder's equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

Statement of Financial Position

	(thousands of $)	
	December 31 2015	December 31 2014
Assets		
Cash and cash equivalents (note 4)	$ 617	$ 5,370
Accounts receivable (note 5)	27,408	27,067
Investments under security lending program (note 6)	31,079	15,341
Investments (note 6)	138,365	137,732
Reinsurers' share of unearned premiums (note 9)	357	593
Unpaid claims recoverable from reinsurers (note 7)	32,884	32,415
Deferred policy acquisition costs (note 8)	6,580	6,173
Property and equipment	262	350
Deferred income tax asset (note 12)	1,664	1,648
	$ 239,216	$ 226,689
Liabilities		
Accounts payable and accrued liabilities	$ 5,009	$ 4,573
Amounts due to reinsurers	3	114
Unearned reinsurance commissions	179	301
Unearned premiums (note 9)	33,798	31,011
Provision for unpaid claims (note 7)	126,705	125,653
Deferred income tax liability (note 12)	454	454
	166,148	162,106
Shareholder's equity		
Share capital (note 10)	1,000	1,000
Contributed surplus	30,600	30,600
Retained earnings	41,468	32,983
	73,068	64,583
	$ 239,216	$ 226,689

Contingencies (note 19)
The accompanying notes are an integral part of these financial statements.
Approved by the Board of Directors and signed on their behalf on February 25, 2016.

Arlene Wiks
Director

Howard Crofts
Director

Statement of Operations

For the years ended December 31	(thousands of $) 2015	2014
Gross premiums written	$ 64,550	$ 58,274
Premiums ceded to reinsurers	(9,714)	(5,704)
Net premiums written	54,836	52,570
Change in net unearned premiums (note 9)	(3,023)	(1,616)
Net premiums earned	**51,813**	50,954
Net claims incurred (note 7)	31,977	32,389
Commissions	9,888	9,047
Administrative expenses	5,195	4,914
Premium taxes	1,885	1,733
Total claims and expenses	**48,945**	48,083
Underwriting income	**2,868**	2,871
Net investment earnings (note 11)	8,594	8,424
Income before income taxes	**11,462**	11,295
Income taxes (note 12)	2,977	2,860
Net income and comprehensive income	**$ 8,485**	$ 8,435

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Shareholder's Equity

For the years ended December 31	(thousands of $) 2015	2014
Share capital		
Balance, end of year	**$ 1,000**	$ 1,000
Contributed surplus		
Balance, end of year	**$ 30,600**	$ 30,600
Retained earnings		
Balance, beginning of year	$ 32,983	$ 24,548
Net income and comprehensive income	8,485	8,435
Balance, end of year	**$ 41,468**	$ 32,983
Total shareholder's equity	**$ 73,068**	$ 64,583

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

For the years ended December 31	(thousands of $) 2015	2014
Cash provided by (used for):		
Operating activities		
Net income and comprehensive income	$ 8,485	$ 8,435
Non-cash items:		
Bond amortization	703	696
Depreciation	88	100
Net unrealized losses on change in market value of investments	2,311	919
Net realized gains on sale of investments	(5,657)	(2,904)
Deferred income taxes	(16)	(95)
Change in non-cash operating items (note 15)	3,061	6,010
	8,975	13,161
Investing activities		
Purchases of investments	(174,502)	(161,894)
Proceeds on sale of investments	160,774	147,393
Purchases of property and equipment	–	(5)
	(13,728)	(14,506)
Decrease in cash and cash equivalents	**(4,753)**	(1,345)
Cash and cash equivalents, beginning of year	5,370	6,715
Cash and cash equivalents, end of year	**$ 617**	$ 5,370
Supplemental cash flow information:		
Interest received	$ 2,461	$ 2,676
Income taxes paid	$ 3,089	$ 2,939

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

December 31, 2015

1. Nature of Operations

Coachman Insurance Company (the Corporation) was incorporated under the laws of Ontario on June 12, 1979. The Corporation holds an Ontario provincial insurers' licence under the *Insurance Act* (Ontario) and is licensed to conduct business in Ontario. The address of the Corporation's registered office is Suite 200, 10 Four Seasons Place, Etobicoke, ON, Canada.

The Corporation's automobile insurance premium rates are regulated by Financial Services Commission of Ontario. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile insurance premiums represent approximately 73% (December 31, 2014 - 75%) of the Corporation's gross premiums written.

As a wholly-owned subsidiary of SGI CANADA Insurance Services Ltd., the financial results of the Corporation are included in its consolidated financial results and ultimately consolidated into the financial statements of Crown Investments Corporation of Saskatchewan.

2. Basis of Preparation

Statement of compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). References to IFRS are based on Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises as set out in Part 1 of the CPA Canada handbook. Part 1 of the CPA Canada handbook incorporates IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee.

Basis of measurement
The financial statements have been prepared using the historical cost basis, except for financial instruments and the provision for unpaid claims and unpaid claims recoverable from reinsurers. The methods used to measure the values of financial instruments are discussed further in note 3. The provision for unpaid claims and unpaid claims recoverable from reinsurers is measured on a discounted basis in accordance with accepted actuarial practice (which in the absence of an active market provides a reasonable proxy of fair value).

Statement of financial position classification
The Statement of Financial Position has been prepared on a non-classified basis in order of liquidity, with a distinction based on expectations regarding recovery or settlement within 12 months after the balance sheet date (current) and more than 12 months after the balance sheet (non-current), presented in the notes.

Functional and presentation currency
These financial statements are presented in Canadian dollars, which is the Corporation's functional and presentation currency.

Use of estimates and judgment

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims (note 7), income taxes (note 12) and the valuation of investments classified as Level 3 (note 6).

3. Significant Accounting Policies

Financial assets and liabilities

The measurement basis for financial assets and financial liabilities depends on whether the financial assets and liabilities have been classified as fair value through profit and loss, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial assets and liabilities classified as fair value through profit and loss are measured at fair value and changes in fair value are recognized in net income. Financial assets classified as available for sale are measured at fair value with unrealized changes in fair value recorded in other comprehensive income (OCI); however, unrealized losses on investments that show objective evidence of impairment are recognized as a decrease to net income. Financial assets designated as held to maturity, or loans and receivables, are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment losses, if any. Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. The Corporation has no financial assets and liabilities designated as available for sale or held to maturity.

The Corporation has designated its cash and cash equivalents and investments as fair value through profit and loss. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities are designated as other financial liabilities. Unpaid claims recoverable from reinsurers, amounts due to reinsurers and the provision for unpaid claims are exempt from the above requirement.

Financial assets and financial liabilities are offset, and the net amount reported in the Statement of Financial Position, only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and liabilities simultaneously. Income and expenses are not offset in the Statement of Operations unless required or permitted by an accounting standard or interpretation, as specifically disclosed in the accounting policies of the Corporation. There are no financial assets and financial liabilities reported as offset in these financial statements.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All fair value measurements relate to recurring measurements. Fair value measurements for investments are categorized into levels within a fair value hierarchy based on the nature of the valuation inputs (Level 1, 2 or 3).

The three levels are based on the priority of inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset's or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities

The Corporation defines active markets based on the frequency of valuation and any restrictions or illiquidity on disposition of the underlying investment and trading volumes. The pooled equity funds are measured at fair value and classified as Level 1. Fair value is based on market price data for identical assets obtained from the investment custodian, investment managers or dealer markets. The Corporation does not adjust the quoted price for such investments.

Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 2 inputs include observable market information, including quoted prices for assets in markets that are considered less active. Assets measured at fair value and classified as Level 2 include short-term investments and bonds and debentures. Fair value for short-term investments and bonds and debentures is based on, or derived from, market price data for same or similar instruments obtained from the investment custodian, investment managers or dealer markets.

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities

Level 3 assets and liabilities include financial instruments whose values are determined using internal pricing models, discounted cash flow methodologies or similar techniques that are not based on observable market data, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. Assets classified as Level 3 include the Corporation's investment in the pooled mortgage and real estate funds. The fair value of these investments is based on the Corporation's share of the net asset value of the respective fund, as determined by its investment manager, and used to value purchases and sales of units in the investments. The primary valuation methods used by the investment managers are as follows:

- The fair value for the pooled mortgage fund is determined based on market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgages (using spread-based pricing over Government of Canada bonds with a similar term to maturity), subject to adjustments for liquidity and credit risk.
- The fair value of the real estate pooled fund is determined based on the most recent appraisals of the underlying properties. Real estate properties are appraised semi-annually by external, independent professional real estate appraisers who are accredited through the Appraisal Institute of Canada. Real estate appraisals are performed in accordance with generally accepted appraisal standards and procedures, and are based primarily on the discounted cash flow and income capitalization methods.

The fair value of other financial assets and financial liabilities is considered to be the carrying value when they are of short duration or when the investment's interest rate approximates current observable market rates. Where other financial assets and financial liabilities are of longer duration, fair value is determined using the discounted cash flow method using discount rates based on adjusted observable market rates. The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and amounts due to reinsurers approximate their carrying values due to their short-term nature.

Investments

The Corporation records investment purchases and sales on a trade-date basis, being the date when the transactions are entered into. Financial assets are de-recognized when the rights to receive cash flows from them have expired, or when the Corporation has transferred substantially all risks and rewards of ownership.

Investments under securities lending program

Securities lending transactions are entered into on a collateralized basis. The securities lent are not de-recognized on the Statement of Financial Position given that the risks and rewards of ownership are not transferred from the Corporation to the counterparties in the course of such transactions. The securities are reported separately on the Statement of Financial Position on the basis that the counterparties may resell or re-pledge the securities during the time that the securities are in their possession.

Securities received from counterparties as collateral are not recorded on the Statement of Financial Position given that the risks and rewards of ownership are not transferred from the counterparties to the Corporation in the course of such transactions.

Investment earnings

The Corporation recognizes interest and premium financing as earned, pooled fund revenue when a distribution is declared, realized gains and losses on investments when the investment has been sold, and unrealized gains and losses based on changes in market value of the investments held at the year-end date. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base.

Interest revenue includes amortization of any premium or discount recognized at the date of purchase of the security. Amortization is calculated using the effective interest method. Interest is generally receivable on a semi-annual basis.

Direct investment expenses, such as external custodial, investment management and investment consultant expenses, are recorded against investment earnings.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the year-end date. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized foreign exchange gains and/or losses arising on monetary and non-monetary investments designated as fair value through profit and loss are recognized in investment earnings. Unrealized gains and/or losses arising on translation are charged to operations in the current year. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current year.

Premiums written

The Corporation's policies have all been classified upon inception as insurance contracts. An insurance contract transfers significant risk and, upon the occurrence of the insured event, causes the insurer to make a benefit payment to the insured party. The sale of policies generates premiums written that are taken into income as net premiums earned over the terms of the related policies, no longer than 12 months. The portion of premiums relating to the unexpired term of each policy is recorded as an unearned premium liability on the Statement of Financial Position.

At the end of each reporting period, a liability adequacy test is performed, in accordance with IFRS, to validate the adequacy of unearned premiums and deferred policy acquisition costs. A premium deficiency would exist if unearned premiums are deemed insufficient to cover the estimated future costs associated with the unexpired portion of written insurance policies. A premium deficiency would be recognized immediately as a reduction of deferred policy acquisition costs to the extent that unearned premiums plus anticipated investment income is not considered adequate to cover all deferred policy acquisition costs and related insurance claims and expenses. If the premium deficiency is greater than the unamortized deferred policy acquisition costs, a liability is accrued for the excess deficiency.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. The estimate includes the cost of reported claims, claims incurred but not reported, and an estimate of adjustment expenses to be incurred on these claims and a provision for adverse deviation (PFAD) in accordance with Canadian Institute of Actuaries standards. The estimates are subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current year.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are deferred, to the extent they are recoverable, and charged to expense over the terms of the insurance policies to which such costs relate, no longer than 12 months.

Reinsurance ceded

The Corporation uses various types of reinsurance to limit its maximum insurance risk exposure. Estimates of amounts recoverable from reinsurers in respect of insurance contract liabilities and their share of unearned premiums are recorded as reinsurance assets on a gross basis in the Statement of Financial Position. Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively. Insurance ceded does not relieve the Corporation of its primary obligation to policyholders.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Income taxes are comprised of both current and deferred taxes. Income taxes are recognized in the Statement of Operations.

Current income taxes are recognized as estimated income taxes for the current year. Deferred income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities, as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any deferred income tax asset if it is probable that the asset will not be realized, probable being defined as more likely than not.

Cash and cash equivalents

Cash and cash equivalents consist of money market investments with a maturity of 90 days or less from the date of acquisition, and are presented net of cash on hand, less outstanding cheques.

Property and equipment

All classes of property and equipment are recorded at cost less accumulated depreciation and accumulated impairment, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset.

The Corporation has not incurred any borrowing costs attributable to property and equipment, and therefore no borrowing costs have been capitalized. Subsequent costs are included in the assets' carrying value when it is probable that future economic benefits associated with the item will flow to the Corporation, and the cost of the item can be reliably measured. Repairs and maintenance are charged to the Statement of Operations in the period in which they have been incurred.

The depreciation method being used, the useful lives of the assets and the residual values of the assets are reviewed at each reporting date.

Depreciation is recorded in operations on a straight-line basis, commencing in the year the asset is available to be placed in service, over the estimated useful lives as follows:

Leasehold improvements	5 years
Other equipment	5 years

Impairment reviews are performed when there are indicators that the carrying value of an asset may exceed its recoverable amount.

Leased assets

Leases where the Corporation does not assume substantially all of the risks and rewards of ownership are classified as operating leases. The payments are expensed as they are incurred.

Provisions and contingent liabilities

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

Structured settlements

In the normal course of claim adjudication, the Corporation settles certain long-term claim losses through the purchase of annuities under structured settlement arrangements with life insurance companies. As the Corporation does not retain any interest in the related insurance contract and obtains a legal release from the claimant, any gain or loss on the purchase of the annuity is recognized in the Statement of Operations at the date of the purchase and the related claim liabilities are de-recognized. However, the Corporation remains exposed to the credit risk that the life insurance companies may fail to fulfil their obligations.

Future accounting policy changes

The following future changes to accounting standards will have applicability to the Corporation:

IFRS 4 – Insurance Contracts

In June 2013, the IASB published a revised exposure draft (2013 ED) on accounting for insurance contracts which builds on consultations undertaken in 2007 and 2010. The 2013 ED is the result of deliberations at the IASB using comments received from constituents. The ED continues to propose a new standard on accounting for insurance contracts, which would replace IFRS 4, *Insurance Contracts*. Proposals represent a comprehensive IFRS accounting model for insurance contracts and are expected to have a significant impact on financial reporting of insurers. A final standard is expected in 2016 with implementation not expected before 2019. The Corporation is in the process of assessing the impact of the new proposed standard.

In July 2015, the IASB amended the existing IFRS 4 to mitigate accounting mismatches from the adoption of IFRS 9, *Financial Instruments*, before the new insurance contracts standard is issued. Insurers who meet certain criteria will be permitted to exclude from net income and recognize in other comprehensive income the difference between the amounts that would be recognized in net income in accordance with IFRS 9 and the amounts recognized in net income in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

IFRS 7 – Financial Instruments: Disclosures

IFRS 7 was amended in December 2011 to require additional financial instrument disclosures upon transition from IAS 39, *Financial Instruments: Recognition and Measurement* to IFRS 9, *Financial Instruments*. The amendments are effective on adoption of IFRS 9. The amendments issued are permitted to be early adopted where IFRS 9 is also early adopted. The Office of the Superintendent of Financial Institutions (OSFI) has indicated that it will not allow early adoption of IFRS 9 for federally regulated financial institutions. While the Corporation is not federally regulated, it generally follows OSFI's guidance in such matters. The Corporation is evaluating the impact this amendment will have on the financial statements.

IFRS 9 – Financial Instruments

In July 2014, the IASB issued a final version of IFRS 9, *Financial Instruments*, as part of its plan to replace IAS 39, *Financial Instruments: Recognition and Measurement*.

The new standard requires financial assets to be measured at either fair value or amortized cost, on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. A financial asset that is held by an entity for the purpose of collecting contractual cash flows on specified dates per contractual terms should be measured at amortized cost. All other financial assets should be measured at fair value.

For equity instruments, management has an option on initial recognition to irrevocably designate on an instrument-by-instrument basis to present the changes in their fair value directly in equity. There is no subsequent recycling of fair value gains and losses from equity to the Statement of Operations; however, dividends from such equity investments will continue to be recognized in profit or loss.

The standard includes introduction of a fair value through other comprehensive income measurement category for simple debt instruments. In this measurement category, the Statement of Financial Position will reflect the fair value carrying amount while amortized cost information is presented in the Statement of Operations. The difference between the fair value and amortized cost information will be recognized in other comprehensive income.

This standard is effective for annual periods beginning on or after January 1, 2018. While early adoption is permitted under the standard, OSFI has indicated that early adoption is not allowed. While the Corporation is not federally regulated, it generally follows OSFI's guidance in such matters.

The IASB has proposed temporary deferral and overlay approaches for insurers, as detailed in their December 2015 Exposure Draft Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* (Proposed amendments to IFRS 4). Proposed changes would allow reporting entities, where the liabilities are predominately arising from insurance contracts, to defer IFRS 9 until the new insurance contracts standard is issued, or 2021 at the latest.

The Corporation is in the process of assessing the impact of the new standard and changes proposed in the Exposure Draft.

IAS 12 – Income Taxes

In January 2016, IAS 12 was amended to clarify guidance in the standard related to the measurement of deductible temporary differences for unrealized losses on debt instruments measured at fair value, the estimation of probable future taxable income, and the assessment of deferred tax assets in combination with other deferred tax assets. These amendments are effective for annual periods beginning on or after January 1, 2017. The Corporation is evaluating the impact this amendment will have on the financial statements.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and is intended to replace IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. The standard was issued as a result of an ongoing project to align revenue recognition between IFRS and U.S. generally accepted accounting principles. This standard is effective for annual periods beginning on or after January 1, 2018. Early application is permitted. IFRS 15 contains a scope exception which excludes insurance contracts within the scope of IFRS 4 *Insurance Contracts*; therefore, this standard will have a limited impact on the Corporation.

IFRS 16 – Leases

IFRS 16 was issued in January 2016 and is intended to replace IAS 17 *Leases*, and related IFRICs. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. This standard is effective for annual periods beginning on or after January 1, 2019. The Corporation is evaluating the impact this standard will have on the financial statements.

IAS 1 – Presentation of Financial Statements

In December 2014, IAS 1 was amended to clarify that materiality applies to all parts of the financial statements, that an entity's share of other comprehensive income of equity-accounted associates and joint ventures should be presented in aggregate, and provides examples of how to clarify understandability and comparability in the ordering of note disclosures. The amendment is effective for annual periods beginning on or after January 1, 2016. The Corporation does not expect these amendments to significantly impact the financial statements.

Annual Improvements Cycles

In 2014, the IASB issued Annual Improvements Cycle 2012-2014, which include minor amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 7 *Financial Instruments: Disclosures*, IAS 19 *Employee Benefits* and IAS 34 *Interim Financial Reporting*. The annual improvements process is used to make necessary but non-urgent changes to IFRSs that are not included in other projects. The amendments issued are all effective for annual periods beginning on or after January 1, 2016. The Corporation does not expect these amendments to significantly impact the financial statements.

4. Cash and Cash Equivalents

	(thousands of $)	
	2015	2014
Money market investments	$ –	$ 4,513
Cash on hand, net of outstanding cheques	617	857
Total cash and cash equivalents	$ 617	$ 5,370

The average effective interest rate on money market investments is nil (2014 - 1.2%).

5. Accounts Receivable

Accounts receivable is comprised of the following:

	(thousands of $)	
	2015	2014
Due from insureds	$ 24,796	$ 23,126
Facility Association (note 18)	1,590	1,548
Accrued investment income	412	519
Due from reinsurers	356	1,840
Due from brokers	278	231
Other	213	131
Income taxes receivable	52	–
	27,697	27,395
Less: Allowance for doubtful accounts (note 13)	(289)	(328)
Total accounts receivable	$ 27,408	$ 27,067

Included in due from insureds is $22,402,000 (2014 - $20,793,000) of financed premiums receivable, which represents the portion of the policyholders' monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment earnings that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized in investment earnings using the effective interest method. The effective interest rate is 8.0% (2014 - 8.0%).

All accounts receivable are current.

6. Investments

The carrying values of the Corporation's investments are as follows:

	(thousands of $)	
	2015	2014
Short-term investments	$ 26,021	$ 21,061
Bonds and debentures	55,811	70,448
Pooled funds:		
Canadian equity	10,190	9,711
Global equity	17,847	–
Global small cap equity	3,444	–
U.S. equity	–	10,372
Non-North American equity	–	7,784
Mortgage	22,999	18,356
Real estate	2,053	–
	138,365	137,732
Investments under securities lending program		
Bonds and debentures	31,079	15,341
Total investments	$ 169,444	$ 153,073

Details of significant terms and conditions, exposures to interest rate and credit risks of investments and counter party risks are as follows:

Short-term investments

Short-term investments are comprised of money market investments with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 0.6% (2014 – 1.0%) and an average remaining term to maturity of 87 days (2014 – 114 days). The Corporation's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the combined short-term investment and bond portfolios.

Bonds and debentures

The Corporation's investment policy states that the minimum quality standard for purchase of bonds and debentures is BBB, as rated by a recognized credit rating service.

The Corporation's investment policy limits its holdings for any one issuer, other than the Government of Canada or a Canadian province, to 10% of the market value of the combined bond and short-term investment portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio. No more than 10% of the market value of the bond portfolio shall be invested in securities of foreign issuers.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	(thousands of $)			
	2015		2014	
Term to maturity (years)	Carrying Value	Average Effective Rates (%)	Carrying Value	Average Effective Rates (%)
Government of Canada:				
One or less	$ 6,846	0.6	$ –	–
After one through five	17,169	1.0	26,581	1.3
Canadian provincial & municipal:				
One or less	–	–	1,841	1.2
After one through five	18,075	1.1	12,442	1.4
Canadian corporate:				
One or less	5,077	1.6	4,707	1.1
After one through five	36,275	1.6	39,050	1.8
After five	3,448	3.5	1,168	2.9
Total bonds and debentures	$ 86,890		$ 85,789	

Investments with a carrying value of $52,000 (2014 - $53,000) are held in trust as required by regulatory authorities.

Pooled funds

The Corporation owns units in pooled equity funds, a pooled mortgage fund and a pooled real estate fund. These pooled funds have no fixed distribution rate. Fund returns are based on the success of the fund managers.

Securities lending program

Through its custodian, the Corporation participates in an investment securities lending program for the purpose of generating fee income. When securities are loaned, the Corporation is exposed to counterparty risk, which is the risk that the borrower will not return the loaned securities or, if the collateral is liquidated, it may be for less than the value of the loan. The Corporation mitigates this risk through non-cash collateral and a guarantee provided by its custodian. Non-cash collateral of at least 102% of the market value of the loaned securities is retained by the Corporation until the loaned securities have been returned. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. In addition, the custodian provides indemnification against any potential losses in the securities lending program. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

At December 31, 2015, the Corporation held collateral of $32,633,000 (2014 - $16,117,000) for the loaned securities.

Fair value hierarchy

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. The determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

	(thousands of $)			
	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ –	$ 26,021	$ –	$ 26,021
Bonds and debentures	–	86,890	–	86,890
Pooled funds:				
Canadian equity	10,190	–	–	10,190
Global equity	17,847	–	–	17,847
Global small cap equity	3,444	–	–	3,444
Mortgage	–	–	22,999	22,999
Real estate	–	–	2,053	2,053
	$ 31,481	$ 112,911	$ 25,052	$ 169,444

	(thousands of $)			
	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ –	$ 21,061	$ –	$ 21,061
Bonds and debentures	–	85,789	–	85,789
Pooled funds:				–
Canadian equity	9,711	–	–	9,711
U.S. equity	10,372	–	–	10,372
Non-North American equity	7,784	–	–	7,784
Mortgage	–	–	18,356	18,356
	$ 27,867	$ 106,850	$ 18,356	$ 153,073

The Corporation's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the year, no investments were transferred between levels.

A reconciliation of Level 3 investments is as follows:

	(thousands of $)	
	2015	2014
Balance beginning of the period	$ 18,356	$ –
Add: Additions during the period		
Mortgage pooled fund	4,590	17,902
Real estate pooled fund	2,000	–
Net unrealized gains	106	454
	$ 25,052	$ 18,356

7. Claims Incurred and Provision for Unpaid Claims

Net claims incurred

	(thousands of $)					
	2015			2014		
	Current year	Prior years	Total	Current year	Prior years	Total
Gross claims incurred	$ 47,863	$ (12,292)	$ 35,571	$ 43,121	$ (8,549)	$ 34,572
Ceded claims incurred	(4,180)	586	(3,594)	(3,332)	1,149	(2,183)
Net claims incurred	$ 43,683	$ (11,706)	$ 31,977	$ 39,789	$ (7,400)	$ 32,389

Current year claims relate to events that occurred in the current financial year. Prior year claims incurred relate to adjustments for the reassessment of the estimated cost for claim events that occurred in all previous financial periods.

Ceded claims incurred represent an estimate of the recoverable cost of those claims transferred to the Corporation's various reinsurers pursuant to reinsurance contracts (note 13).

Net provision for unpaid claims

	(thousands of $)	
	2015	2014
Net unpaid claims, beginning of year - discounted	$ 93,238	$ 87,569
PFAD and discount, beginning of the year	(7,643)	(6,014)
Net unpaid claims, beginning of year - undiscounted	85,595	81,555
Payments made during the year relating to:		
Prior year claims	(14,682)	(15,562)
Prior year Facility Association claims	(385)	(360)
Deficiency (excess) relating to:		
Prior year estimated unpaid claims	(11,245)	(7,071)
Prior year estimated unpaid Facility Association claims	(461)	(329)
Net unpaid for claims of prior years - undiscounted	58,822	58,233
Net unpaid claims, current year	26,134	26,844
Net unpaid Facility Association claims, current year	389	518
Net unpaid claims, end of year - undiscounted	85,345	85,595
PFAD and discount, end of year	8,476	7,643
Net unpaid claims, end of year - discounted	$ 93,821	$ 93,238

The net provision for unpaid claims of $93,821,000 (2014 - $93,238,000) consists of the gross provision for unpaid claims of $126,705,000 (2014 - $125,653,000) less unpaid claims recoverable from reinsurers of $32,884,000 (2014 - $32,415,000).

Management believes that the unpaid claims provision is appropriately established in the aggregate and is adequate to cover the ultimate net cost on a discounted basis. The determination of this provision, which includes unpaid claims, adjustment expenses and expected salvage and subrogation, requires an assessment of future claims development. This assessment takes into account the consistency of the Corporation's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claims arise and the delay inherent in claims reporting. This provision is an estimate and as such is subject to variability that may arise from future events, such as the receipt of additional claims information, changes in judicial interpretation of contracts or significant changes in frequency and severity of claims. This estimate is principally based on the Corporation's historical experience and may be revised as additional experience becomes available. Any such changes would be reflected in the Statement of Operations for the period in which the change occurred.

The provision for unpaid claims and unpaid claims recoverable from reinsurers are carried on a discounted basis to reflect the time value of money. In that respect, the Corporation determines the discount rate based upon the expected return of the bond investments that approximates the cash flow requirements of the unpaid claims. The discount rate applied was 1.4% (2014 - 1.6%). The resulting carrying amount is considered to be an indicator of fair value as there is no ready market for trading insurance contract liabilities.

Net unpaid claims

	(thousands of $)					
	Gross Unpaid Claims		Reinsurance Recoverable		Net Unpaid Claims	
	2015	2014	2015	2014	2015	2014
Provision for reported claims, undiscounted	$ 72,179	$ 71,914	$ 20,401	$ 21,606	$ 51,778	$ 50,308
Provision for claims incurred but not reported	43,158	43,568	9,591	8,281	33,567	35,287
PFAD	16,065	15,413	3,991	3,754	12,074	11,659
Effects of discounting	(4,697)	(5,242)	(1,099)	(1,226)	(3,598)	(4,016)
	$126,705	$125,653	$ 32,884	$ 32,415	$ 93,821	$ 93,238

Structured settlements

The Corporation settles some long-term disability claims by purchasing annuities for its claimants from various life insurers. The settlements legally release the Corporation from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Statement of Financial Position. However, as part of the settlement, the Corporation provides a financial guarantee to the claimants in the event the life insurers' default on the scheduled payments and is thus exposed to credit risk to the extent any of the life insurers fail to fulfill their obligations. As at December 31, 2015, no information has come to the Corporation's attention that would suggest any weakness or failure in the life insurers from which it has purchased annuities. The net present value of the scheduled payments as of the year-end date is $785,000 (2014 - $839,000). The net risk to the Corporation is the credit risk related to the life insurance companies that the annuities are purchased from. No defaults have occurred, and the Corporation considers the possibility of default to be remote.

8. Deferred Policy Acquisition Costs

	(thousands of $)	
	2015	2014
Deferred policy acquisition costs, at January 1	$ 6,173	$ 5,780
Acquisition costs deferred during the year	11,141	10,271
Amortization of deferred acquisition costs	(10,764)	(9,928)
Change in premium deficiency	30	50
Deferred policy acquisition costs, at December 31	$ 6,580	$ 6,173

9. Unearned Premiums

	(thousands of $)					
	Gross Unearned Premiums		Reinsurers' Share of Unearned Premiums		Net Unearned Premiums	
	2015	2014	2015	2014	2015	2014
Unearned premiums, at January 1	$ 31,011	$ 29,894	$ 593	$ 1,092	$ 30,418	$ 28,802
Premiums written	64,550	58,274	9,714	5,704	54,836	52,570
Premiums earned	(61,763)	(57,157)	(9,950)	(6,203)	(51,813)	(50,954)
Change in net unearned premiums	2,787	1,117	(236)	(499)	3,023	1,616
Unearned premiums, at December 31	$ 33,798	$ 31,011	$ 357	$ 593	$ 33,441	$ 30,418

10. Share Capital

Authorized:
Unlimited number of common shares with no par value.

	(thousands of $)	
Issued and fully paid:	2015	2014
10,000 common shares	$ 1,000	$ 1,000

11. Net Investment Earnings

Components of investment earnings are as follows:

	(thousands of $)	
	2015	2014
Net realized gains on sale of investments	$ 5,657	$ 2,904
Pooled fund distributions	2,074	3,044
Premium financing	1,955	1,801
Interest	1,647	1,930
Net unrealized losses on change in market value of investments	(2,311)	(919)
Total investment earnings	9,022	8,760
Investment expenses	(428)	(336)
Net investment earnings	$ 8,594	$ 8,424

Details of the net unrealized losses on change in market value of investments are as follows:

	(thousands of $)	
	2015	2014
Bonds and debentures	$ (343)	$ 209
Pooled funds:		
Canadian equity	(1,302)	362
Global equity	1,251	–
Global small cap equity	64	–
U.S. equity	(2,255)	(7)
Non-North American equity	168	(1,937)
Mortgage	53	454
Real estate	53	–
	$ (2,311)	$ (919)

12. Income Taxes

The Corporation's provision for income taxes is as follows:

	(thousands of $)	
	2015	2014
Current	$ 2,993	$ 2,955
Deferred	(16)	(95)
Income tax expense	$ 2,977	$ 2,860

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes.

The reasons for the differences are as follows:

	(thousands of $)	
	2015	2014
Income before income taxes	$ 11,462	$ 11,295
Combined federal and provincial tax rate	26.50%	26.50%
Computed tax expense based on combined rate	$ 3,037	$ 2,993
Increase (decrease) resulting from:		
Investment earnings not subject to taxation	(95)	(53)
Ontario small business deduction	–	(35)
Federal income tax credits	–	(29)
Other	35	(16)
Total income tax expense	$ 2,977	$ 2,860

All income taxes payable and/or receivable are due within one year. Income taxes receivable of $52,000 (2014 – payable of $44,000) are included in accounts receivable (2014 – accounts payable and accrued liabilities) on the Statement of Financial Position.

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities are presented below:

Deferred tax asset	(thousands of $)		
	Provision for unpaid claims	Other	Total
At January 1, 2014	$ 1,609	$ –	$ 1,609
Charge reflected in income tax expense	36	3	39
At December 31, 2014	1,645	3	1,648
Credit reflected in income tax expense	15	1	16
At December 31, 2015	$ 1,660	$ 4	$ 1,664

Deferred tax liability	(thousands of $)		
	Unpaid claims recoverable from reinsurers	Investments	Total
At January 1, 2014	$ 468	$ 42	$ 510
Credit reflected in income tax expense	(39)	(17)	(56)
At December 31, 2014	429	25	454
Charge (credit) reflected in income tax expense	7	(7)	–
At December 31, 2015	$ 436	$ 18	$ 454

The Corporation expects that the deferred tax asset will be realized in the normal course of operations.

13. Insurance and Financial Risk Management

Insurance risk arises with respect to the adequacy of the Corporation's insurance premium rates and provision for unpaid claims (consisting of underwriting and actuarial risks). The nature of insurance operations also results in significant financial risks, as the Corporation's Statement of Financial Position consists primarily of financial instruments. Financial risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Insurance Risk

Underwriting risk

The Corporation manages insurance risk through underwriting and reinsurance strategies within an overall strategic planning process. Pricing is based on assumptions with regards to past experiences and trends. Exposures are managed by having documented underwriting limits and criteria, product and geographic diversification and reinsurance.

Diversification

The Corporation writes property, liability and motor risks over a 12-month period. The most significant risks arise from properly costing automobile injury and accident benefits. The Corporation attempts to mitigate risk by offering different lines of insurance products.

The concentration of insurance risk by line of business is summarized below by reference to gross premiums written:

	(thousands of $)	
	2015	2014
Automobile	$ 47,338	$ 43,439
Personal property	6,737	6,430
Commercial property	6,624	5,217
Liability	3,851	3,188
Total	$ 64,550	$ 58,274

The concentration of insurance risk by line of business is summarized below by reference to unpaid claim liabilities:

	(thousands of $)					
	Gross		Reinsurance Recoverable		Net	
	2015	2014	2015	2014	2015	2014
Automobile	$ 97,378	$ 97,115	$ 27,704	$ 27,209	$ 69,674	$ 69,906
Personal property	3,754	5,056	708	1,108	3,046	3,948
Commercial property	3,745	2,729	479	406	3,266	2,323
Liability	8,668	8,432	1,101	1,164	7,567	7,268
Facility Association (note 18)	1,792	2,150	–	–	1,792	2,150
PFAD and discounting	11,368	10,171	2,892	2,528	8,476	7,643
Total	$ 126,705	$ 125,653	$ 32,884	$ 32,415	$ 93,821	$ 93,238

Reinsurance

The Corporation also seeks to reduce losses that may arise from catastrophes or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with SGI CANADA and other insurers.

The policy of underwriting and reinsuring contracts of insurance limits the liability of the Corporation to a maximum amount on any one loss as follows:

	(thousands of $)	
	2015	2014
Property	$ 500	$ 500
Automobile and general liability	500	500

In addition, the Corporation carries property and auto physical damage catastrophe reinsurance limiting combined exposure to $2,000,000 per event. In 2014, the Corporation carried similar coverage, although auto physical damage catastrophe losses were limited to $1,000,000 per event.

While the Corporation utilizes reinsurance, it is still exposed to reinsurance risk. Reinsurance risk is the risk of financial loss due to inadequacies in reinsurance coverage or the default of a reinsurer. The Corporation evaluates and monitors financial condition of its reinsurers to minimize exposure to significant losses from reinsurer insolvency.

The following table sets out the amount by which reinsurance ceded has reduced the premiums earned, claims incurred, and commissions, administrative expenses and premium taxes:

	(thousands of $)	
	2015	2014
Premiums earned	$ 9,950	$ 6,203
Claims incurred	3,594	2,183
Commissions, administrative expenses and premium taxes	221	319

Actuarial Risk

Establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances, and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the year-end date.

The significant assumptions used to estimate the provision include: the Corporation's experience with similar cases, historical claim payment trends and claim development patterns, the characteristics of each class of business, claim severity and frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors, which necessarily involves risk that actual results may differ materially from the estimates.

The following table shows the development of the estimated net provision for unpaid claims relative to the current estimate of ultimate claim costs for the nine most recent accident years as estimated at each reporting date.

	(thousands of $)								
Accident Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Net ultimate loss									
At end of accident year	$ 14,763	$ 15,455	$ 21,124	$ 24,595	$ 38,463	$ 34,290	$ 34,416	$ 34,178	$ 38,940
One year later	14,219	13,663	19,916	24,658	34,527	30,383	32,611	29,784	
Two years later	14,278	14,146	20,526	25,193	32,149	27,387	30,038		
Three years later	14,326	13,598	19,977	23,763	29,954	25,356			
Four years later	14,006	13,743	20,555	22,906	28,719				
Five years later	14,602	13,793	20,531	22,265					
Six years later	14,419	14,246	20,401						
Seven years later	14,546	14,332							
Eight years later	14,550								
Cumulative loss development	$ (213)	$ (1,123)	$ (723)	$ (2,330)	$ (9,744)	$ (8,934)	$ (4,378)	$ (4,394)	n/a
Cumulative loss development as a % of original ultimate loss	(1.4%)	(7.3%)	(3.4%)	(9.5%)	(25.3%)	(26.1%)	(12.7%)	(12.9%)	n/a

	(thousands of $)									
Accident Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
Current estimate of net ultimate loss	14,550	14,332	20,401	22,265	28,719	25,356	30,038	29,784	38,940	224,385
Cumulative paid	(13,715)	(12,440)	(18,069)	(19,773)	(21,665)	(17,798)	(17,508)	(14,531)	(14,151)	(149,650)
Net provision for unpaid claims for the nine most recent accident years	$ 835	$ 1,892	$ 2,332	$ 2,492	$ 7,054	$ 7,558	$ 12,530	$ 15,253	$ 24,789	$ 74,735
Net undiscounted claims outstanding for accident years 2006 and prior										2,262
Loss adjusting expense reserve										4,948
Provision for adverse deviation and discounting										8,476
Facility Association										1,792
Retained risk sharing pool										1,360
Health levy recovery										(67)
Subrogation										197
Other reconciling items										118
Net provision for unpaid claims										$ 93,821

The Corporation's estimated sensitivity of its provision for unpaid claims and net income to changes in best estimate assumptions in the unpaid claims liabilities is as follows:

		(thousands of $)			
		Change to Net Provision for Unpaid Claims		Change to Net Income	
Assumption	Sensitivity	2015	2014	2015	2014
Discount rate	+100 bps	$ (2,749)	$ (2,640)	$ 362	$ 216
Discount rate	- 100 bps	2,749	2,640	(362)	(216)
Net loss ratio	+ 10%	5,784	5,662	(5,784)	(5,662)
Misestimate	1% deficiency	879	869	(879)	(869)

The net provision for unpaid claims refers to the provision for unpaid claims net of unpaid claims recoverable from reinsurers. The method used for deriving this sensitivity information did not change from the prior period.

Financial Risk

The nature of the Corporation's operations result in a Statement of Financial Position that consists primarily of financial instruments. The risks that arise are credit risk, market risk and liquidity risk.

Significant financial risks are related to the Corporation's investments. These financial risks are managed by having a Statement of Investment Policies and Goals (SIP&G), which is approved annually by the Corporation's Board of Directors. The SIP&G provides guidelines to the investment managers for the asset mix of the portfolio regarding quality and quantity of debt, real estate and equity investments using a prudent person approach. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. The Corporation receives regular reporting from the investment managers and custodian regarding compliance with the SIP&G. The investment managers' performance is evaluated based on return objectives, including realized and unrealized capital gains and losses plus income from all sources, and goals stated in the SIP&G.

Credit risk

The Corporation's credit risk arises primarily from two distinct sources: accounts receivable (from customers, brokers and reinsurers) and certain investments.

The maximum credit risk to which the Corporation is exposed is limited to the carrying value of the financial assets summarized as follows:

	(thousands of $)	
	2015	2014
Cash and cash equivalents	$ 617	$ 5,370
Accounts receivable	27,408	27,067
Fixed income investments [1]	135,910	125,206
Unpaid claims recoverable from reinsurers	32,884	32,415

[1] Includes short-term investments, bonds and debentures, and mortgage pooled fund

In addition, the Corporation is exposed to credit risk associated with its structured settlements as described separately in the notes to the financial statements.

Cash and cash equivalents include cash on hand, net of outstanding cheques of $617,000 (2014 - money market investments of $4,513,000 and cash on hand, net of outstanding cheques of $857,000). The money market investments mature within 90 days from the date of acquisition and have a credit rating of R-1.

Accounts receivable are primarily from customers, diversified among residential and commercial, along with amounts from the Facility Association (note 18) and from brokers. Accounts receivable consist of balances outstanding for one year or less.

	(thousands of $)	
	2015	2014
Current	$ 27,373	$ 27,042
30 - 59 days	55	47
60 - 90 days	19	16
Greater than 90 days	250	290
Subtotal	27,697	27,395
Allowance for doubtful accounts	(289)	(328)
Total	$ 27,408	$ 27,067

Provisions for credit losses are maintained in an allowance account and are regularly reviewed by the Corporation. Amounts are written off once reasonable collection efforts have been exhausted.

Details of the allowance account are as follows:

	(thousands of $)	
	2015	2014
Allowance for doubtful accounts, at January 1	$ 328	$ 331
Accounts written off	(191)	(182)
Current period provision	152	179
Allowance for doubtful accounts, at December 31	$ 289	$ 328

Concentrations of credit risk for insurance contracts can arise from reinsurance ceded contracts as insurance ceded does not relieve the Corporation of its primary obligation to the policyholder. Reinsurers are typically required to have a minimum financial strength rating of A- at the inception of the treaty; rating agencies used are A.M. Best and Standard & Poor's. Guidelines are also in place to establish the maximum amount of business that can be placed with a single reinsurer.

Credit risk within investments is related primarily to short-term investments, bonds and debentures, and the mortgage pooled fund. It is managed through the investment policy that limits debt instruments to those of high credit quality (minimum rating for bonds and debentures is BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit ratings for the bond and debenture investments are as follows:

	(thousands of $)			
	2015		2014	
Credit Rating	Fair Value (thousands of $)	Makeup of Portfolio (%)	Fair Value (thousands of $)	Makeup of Portfolio (%)
AAA	$ 24,015	27.7	$ 26,738	31.2
AA	22,780	26.2	26,189	30.5
A	26,436	30.4	20,387	23.8
BBB	13,659	15.7	12,475	14.5
Total	$ 86,890	100.0	$ 85,789	100.0

Within bonds and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 10% of the market value of the combined bond and short-term investment portfolios. No one holding of a province is over 20% of the market value of the bond portfolio.

The unit value of the mortgage pooled fund is impacted by the credit risk of the underlying mortgages. This risk is limited by restrictions within its own investment policy, which include single loan limits, diversification by property type and geographic regions within Canada. Each underlying mortgage is secured by real estate and related contracts.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Corporation is exposed to changes in interest rates in its fixed income investments, including short-term investments, bonds and debentures and the mortgage pooled fund. Changes in interest rates also impact the provision for unpaid claims and unpaid claims recoverable from reinsurers. The impact that a change in interest rates has on investment income will be partially offset by the impact the change in interest rates has on discounting of claims incurred.

It is estimated that a 100 basis point increase/decrease in interest rates would have the following impact:

	(thousands of $)			
	100 basis point increase		100 basis point decrease	
	2015	2014	2015	2014
Net investment earnings	$ (2,387)	$ (2,424)	$ 2,387	$ 2,424
Net claims incurred	(2,749)	(2,640)	2,749	2,640
Net income (loss)	362	216	(362)	(216)

Foreign exchange

The investment policy defines maximum limits to exchange rate sensitive assets within the investment portfolio. The following table indicates the exposure to exchange rate sensitive assets and provides the sensitivity to a 10% appreciation/depreciation in the Canadian dollar and the corresponding decrease/increase in net income and retained earnings:

Asset Class	Maximum Exposure (%) December 31 2015	Current Exposure (%) December 31 2015	10% change in exchange rates (thousands of $) December 31 2015
Global equities	15.0	10.5	$ 1,785
Global small cap equities	3.0	2.0	344

Asset Class	Maximum Exposure (%) December 31 2014	Current Exposure (%) December 31 2014	10% change in exchange rates (thousands of $) December 31 2014
U.S. equities	9.0	6.8	$ 1,037
Non-North American equities	7.0	5.1	778

As global equity funds are classified as fair value through profit and loss, any unrealized changes due to foreign currency are recorded in net income. There is no exposure to foreign exchange risk within the Corporation's bond and debenture portfolio. As well, no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers. The Corporation's exposure to exchange rate risk resulting from the purchase of goods and services, and claims and reinsurance receivables and payables, are not considered material to the operations of the Corporation.

Equity prices

The Corporation is exposed to changes in equity prices in Canadian and other global markets. Equities comprise 18.6% (2014 – 18.2%) of the carrying value of the Corporation's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Corporation's investments. As well, no one holding represents more than 10% of the voting shares of any corporation.

The Corporation's equity price risk is assessed using Value at Risk (VaR), a statistical technique that measures the potential change in the value of an asset class. The VaR has been calculated based on volatility over a four-year period, using a 95% confidence level. It is expected that the annual change in the portfolio market value will fall within the range outlined in the following table 95% of the time (19 times out of 20 years).

	(thousands of $)					
Asset Class	**2015**			**2014**		
Canadian equities	$	+/-	2,058	$	+/-	2,845
Global equities		+/-	3,855		+/-	–
Global small cap equities		+/-	771		+/-	–
U.S. equities		+/-	–		+/-	2,883
Non-North American equities		+/-	–		+/-	2,024

The Corporation's equity investments are classified as fair value through profit and loss and any unrealized changes in their fair value are recorded in the Statement of Operations.

No derivative financial instruments have been used to alter the effects of market changes and fluctuations.

Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. The majority of financial liabilities, excluding certain unpaid claim liabilities, are short-term in nature, due within one year. The Corporation generally maintains positive overall cash flows through cash generated from operations as well as cash generated from investing activities.

The following summarizes the estimated contractual maturities of the Corporation's financial assets and liabilities at December 31:

	(thousands of $)					
	2015					
	No stated maturity	0 - 6 months	7 - 12 months	1 - 2 years	3 - 5 years	More than 5 years
Financial assets						
Cash and cash equivalents	$ 617	$ –	$ –	$ –	$ –	$ –
Accounts receivable	–	20,803	6,605	–	–	–
Investments	56,533	33,264	4,680	31,033	40,486	3,448
Unpaid claims recoverable from reinsurers	–	4,773	3,938	6,242	10,986	4,053
	$ 57,150	$ 58,840	$ 15,223	$ 37,275	$ 51,472	$ 7,501
Financial liabilities						
Accounts payable and accrued liabilities	$ 3,467	$ 1,542	$ –	$ –	$ –	$ –
Provision for unpaid claims	–	16,653	13,079	21,043	43,617	20,945
	3,467	18,195	13,079	21,043	43,617	20,945
Finance lease commitment	–	172	172	347	351	–
	$ 3,467	$ 18,367	$ 13,251	$ 21,390	$ 43,968	$ 20,945

	(thousands of $)					
	2014					
	No stated maturity	0 - 6 months	7 - 12 months	1 - 2 years	3 - 5 years	More than 5 years
Financial assets						
Cash and cash equivalents	$ 857	$ 4,513	$ –	$ –	$ –	$ –
Accounts receivable	–	16,345	10,722	–	–	–
Investments	46,223	18,615	8,995	25,141	52,931	1,168
Unpaid claims recoverable from reinsurers	–	4,793	3,940	6,334	11,050	3,770
	$ 47,080	$ 44,266	$ 23,657	$ 31,475	$ 63,981	$ 4,938
Financial liabilities						
Accounts payable and accrued liabilities	$ 3,519	$ 1,367	$ –	$ –	$ –	$ –
Amounts due to reinsurers	–	114	–	–	–	–
Provision for unpaid claims	–	16,991	13,261	21,347	44,492	19,391
	3,519	18,472	13,261	21,347	44,492	19,391
Finance lease commitment	–	–	316	330	671	–
	$ 3,519	$ 18,472	$ 13,577	$ 21,677	$ 45,163	$ 19,391

The estimated contractual maturities related to the unpaid claims recoverable from reinsurers excludes the net effect of discounting and PFAD of $2,892,000 (2014 - $2,528,000) (note 7). The estimated contractual maturities related to the provision for unpaid claims excludes the net effect of discounting and PFAD of $11,368,000 (2014 - $10,171,000) (note 7).

14. Capital Management

The Corporation's primary objectives when managing capital is to ensure adequate funding is available to pay policyholder claims, be flexible in its product offerings and support its growth strategies, while providing an adequate return to its shareholder. Its main sources of capital are retained earnings and cash injections in the form of contributed surplus advanced from its parent, SGI CANADA Insurance Services Ltd. There were no changes to the Corporation's capital structure during the period.

The Corporation uses a common industry measurement, the Minimum Capital Test (MCT), to monitor capital adequacy. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off balance sheet exposures by applying various factors to determine a ratio of capital available over capital required.

The Corporation is a provincially regulated insurer and, as such, is subject to rate regulation related to its automobile premiums. The Board approved a Capital Management policy for the Corporation prepared in accordance with Guideline A-4, *Regulatory Capital and Internal Capital Targets*, which OSFI issued in January 2014. The policy establishes an internal MCT target, in excess of 150%, which is used by the regulator as a minimum target for supervisory purposes. The policy also establishes an operating MCT target that provides for an operating cushion above the internal target. The Corporation maintains an MCT in excess of the internal target.

15. Change in Non-Cash Operating Items

The change in non-cash operating items is comprised of the following:

	(thousands of $)	
	2015	2014
Accounts receivable	$ (341)	$ (264)
Reinsurers' share of unearned premiums	236	499
Unpaid claims recoverable from reinsurers	(469)	2,955
Deferred policy acquisition costs	(407)	(393)
Accounts payable and accrued liabilities	436	27
Amounts due to reinsurers	(111)	(678)
Unearned reinsurance commissions	(122)	33
Unearned premiums	2,787	1,117
Provision for unpaid claims	1,052	2,714
	$ 3,061	$ 6,010

16. Employee Salaries and Benefits

The Corporation incurs salary and benefit expenses. It allocates expenses incurred to the various operating functions, and has therefore included the various employee salary and benefit expenses in different line items on the Statement of Operations, including claims incurred and administrative expenses.

The total salaries and benefits expenses incurred during the year are as follows:

	(thousands of $)	
	2015	2014
Salaries	$ 2,724	$ 2,669
Other benefits	528	471
Total salaries and benefits	$ 3,252	$ 3,140

17. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties"). All transactions are settled at prevailing market prices under normal trade terms. The Corporation has elected to take a partial exemption under IAS 24 *Related Party Disclosures* which allows government related entities to limit the extent of disclosures about related party transactions with government or other government related entities.

SGI CANADA provides management and administrative services to the Corporation as well as being one of its reinsurers (note 13). Administrative and loss adjusting expenses incurred by SGI CANADA and charged to the Corporation were $2,170,000 (2014 - $2,124,000) and accounts payable are $230,000 (2014 - $298,000 payable). Reinsurance ceded to SGI CANADA has reduced premiums earned by $4,994,000 (2014 - $3,987,000) and decreased claims incurred by $2,438,000 (2014 - $3,817,000).

Key management personnel

Key management personnel are those persons having authority over the planning, directing and controlling activities of the Corporation, and include executive employees of the Corporation's parent, SGI CANADA. Compensation for these individuals is paid by SGI CANADA and a portion allocated to the Corporation on the basis of a cost allocation formula.

	(thousands of $)	
	2015	2014
Salaries and other short-term employee benefits	$ 212	$ 299
Post-employment benefits	10	18
	$ 222	$ 317

Other related party transactions are described separately in the notes to the financial statements.

18. Facility Association Participation

The Corporation is a participant in automobile residual market and risk-sharing pools, whereby companies in the industry are required by regulation to provide automobile insurance coverage to high-risk insureds.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	(thousands of $)	
	2015	2014
Gross premiums written	$ 392	$ 486
Net premiums earned	$ 471	$ 537
Net claims incurred	147	425
Commissions	(27)	(42)
Premium taxes	14	16
Administrative expenses	108	144
Total claims and expenses	242	543
Underwriting income (loss)	229	(6)
Investment earnings	48	60
Net income	$ 277	$ 54
Facility Association receivable	$ 1,590	$ 1,548
Unearned premiums	234	312
Facility Association payable	1,520	1,520
Provision for unpaid claims	1,792	2,150

19. Contingencies

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business. The Corporation is of the opinion that litigation will not have a significant effect on the financial position or results of operations.